

**STRICTLY CONFIDENTIAL**

**EXECUTIVE SUMMARY**

**SUBMISSION TO** : Council

**DIVISION REQUESTING THE  
SUBMISSION** : Finance

**TITLE OF THE SUBMISSION**

<b>MFMA Section 16(1)&amp;(2) – Draft annual budget 2019/20</b>
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**1. SOLUTION REQUIRED**

Strategy Endorsement	
Commercial Options	
Approval	
Information	X

**2. PURPOSE**

To table the draft annual budget for the 2019/20 Multi Term Revenue and Expenditure Framework (MTREF).

**3. LEGISLATIVE BACKGROUND**

In terms of section 16 (1) and (2) of the MFMA, the council of municipality must for each financial year approve an annual budget for the municipality before the start of that financial year and in order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

**4. DISCUSSION**

**Overview of the Budget Process**

As required by section 21 (1) of the MFMA Council approved an IDP/ Budget Process Plan for the 2019/20 Financial Year in August 2018. The plan outlined schedule of key deadlines for the review of the IDP and adoption of the budget.

Various consultation processes were held with stakeholders in terms of the process plan, at public participation engagements. Furthermore, engagements were held to discuss the IDP priorities and budget formulation and implementation. Inter-alia, the municipality considered National Treasury's budget circulars, which provided guidance and assumptions.

### **Budget assumptions**

National Treasury issued MFMA/Budget Circular 94 indicating information relevant in the compilation of the 2018/19 budget. The following CPI's were used to project expenditure for the 2019/20 financial year as well as the two subsequent years:

Item	2019/20	2020/21	1921/22
Salaries	5.8%	6.6%	5.4%
General expenditure	5.6%	5.4%	5.4%

There has been an increment of 9.8% on Bulk electricity and 7.9% increase on water and ERWAT. The said projections were used to forecast revenue from services as well as to determine tariff increases for the 2019/20 financial year.

The said circular advises municipalities to give attention to several areas of concern, among others:

- Revenue management
- Collection of outstanding debt
- Pricing services correctly
- Under-spending on repairs and maintenance
- Spending on non-priorities

Division of Revenue Act 2014 has been issued, advising on the allocation of revenue raised nationally to other government spheres. It is outlined in the said Act, that the Lesedi's allocation for equitable share is estimated at R119 million, indicated in Division of Revenue Act, 2014 (DoRA, 2014), while Municipal Infrastructure Grant is estimated at R25.9 million. The proposed allocation has a significant impact on the municipality's fiscal position and its commitment to meeting its set objectives.

### **Cost containment measures**

In MFMA Circular No. 70 municipalities were strongly advised to take note of the Cabinet resolution of 23 October 2013 by which all national and provincial departments, constitutional institutions and all public entities are required to implement cost containment measures with effect of January 2014. **The cost containment measures must be implemented to eliminate waste, reprioritize spending and ensure savings on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering and event costs as well as costs for accommodation.** Municipalities were subsequently strongly urged to take note of the cost containment measures as approved by Cabinet and align their budgeting policies to these guidelines to the maximum extent possible.

Although it's acknowledged that local government is autonomous in its strategy formulation (IDP) and setting of budget appropriations, local government remains a sphere of government and must therefore align itself to the maximum extent possible to that of national and provincial government. In this regard in terms of section 62(1) of the MFMA the accounting officer of the municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- That the resources of the municipality are used effectively, efficiently and economically;
- That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards; and
- That unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented.

## **Overview of alignment of the Budget with the IDP**

The strategic objectives as per the draft IDP would be addressed by the budget. A reconciliation of the IDP strategic objectives and the budget are populated in the budget supporting tables SA4 (revenue), SA5 (operational expenditure) and SA6 (capital expenditure).

## **Measurable Performance Objectives and Indicators**

MFMA Circular 13, advises municipality to formulate the Service Delivery and Budget Implementation Plans (SDBIP), after adoption of the budget. The draft SDBIP will be informed by the approved budget and will be tabled to the Executive Mayor 14 days after approval of the budget, while the final SDBIP will be signed by the Executive Mayor within 28 days of approval of the budget, as legislated.

## **5. FUNDING OF THE BUDGET**

In terms of section 18(1)(a)(b)(c) of the MFMA, an annual budget may only be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and borrowed funds, but only for the capital budget referred to in section 17(2).

### **Tariff increases**

It is well understandable that the municipality's ability to fund its operations is also based on its own generated revenue. MFMA circular 89 advises municipalities to apply cost-reflective tariffs. The following tariff increments are proposed to be affected in the 2019/20 financial year.

Assessment Rates	-	5.6%.
Electricity	-	9.8%
Water	-	7.9%
Sanitation	-	7.9%
Refuse	-	5.6%.
Other income	-	5.6%.

The electricity tariff application is in line with NERSA's guidelines and as a result is approved by them.

Draft budget related policies were presented a joint section 80 committee.

The following are budget related policies presented and adopted for approval by the joint Section 80 committees:

- ❖ Credit Control and Debt Collection Policy
- ❖ Indigent Management Policy
- ❖ Tariff Policy
- ❖ Property Rates Policy
- ❖ Supply Chain Management Policy
- ❖ Asset Management policy
- ❖ Budget policy
- ❖ Virement policy
- ❖ Loan policy
- ❖ Grants policy
- ❖ Funds reserves policy
- ❖ Bursary Policy
- ❖ Inventory management policy
- ❖ Cash Management and payment of creditors policy

- ❖ Supply chain management policy
- ❖ Short term insurance policy
- ❖ Subsistence and travel allowance policy
- ❖ Funding and reserves policy
- ❖ Relocation policy
- ❖ Acting allowance policy
- ❖ Provision for doubtful debtors and debt write off policy
- ❖ Bursary policy
- ❖ Investments policy
- ❖ Long term financial policy

### **Revenue**

Proposed revenue for the 2019/20 financial year is as follows:

<b>Description</b>	<b>Draft Budget 2019/20 R</b>	<b>Draft Budget (outer year) 2020/21 R</b>	<b>Draft Budget (outer year) 2021/22 R</b>	<b>Weighti ng</b>
Property rates	116,940,704	123,255,505	129,911,305	12.5
Service charges- electricity revenue	328,662,496	346,527,886	365,364,594	35.1
Service charges – Water revenue	121,147,729	128,163,555	135,590,575	12.9
Service charges – sanitation revenue	31,365,237	33,290,704	35,337,348	3.4
Service Charges refuse revenue	31,487,855	33,251,138	35,113,163	3.4
Fines	45,919,353	45,920,398	45,921,499	4.9
Interest earned outstanding debtors	29,240,072	30,819,035	32,483,262	3.1
Transfers recognized -Operational	147,315,915	160,020,304	177,936,159	15.7
Transfers recognized -Capital	70,404,000	62,320,000	69,058,000	7.5
Rental of facilities and equipment	5,219,316	5,501,160	5,798,224	0.6
Other revenue	8,163,528	8,604,352	9,068,989	0.9
<b>Total</b>	<b>935,866,205</b>	<b>977,674,037</b>	<b>1,041,583,118</b>	100.0

The largest revenue items are electricity at 35.1%, grant income at 23.2% (15.7% is operational grants and 7.5 is capital grants), water sales at 12.9% and property rates at 12.5%. The three items generate 83.7% of the revenue of the municipality.

### **Expenditure**

Proposed expenditure for the financial year is as follows:

Description	Draft Budget 2019/20 R	Draft Budget (outer year) 2020/21 R	Draft Budget (outer year) 2021/22 R	Weighting
Employee costs	210,231,300	220,167,240	233,321,459	23.6
Councilors remuneration	11,795,678	12,562,397	13,228,204	1.3
Debt Impairment	145,878,765	151,707,973	157,860,904	16.3
Depreciation	38,768,608	39,845,956	41,687,517	4.3
Finance charges	7,711,200	7,607,693	7,547,828	0.9
Bulk purchases: Electricity and Water	333,521,074	351,531,212	370,513,898	37.4
Other Materials	15,442,585	16,018,784	16,883,797	1.7
Leases	3,227,704	3,402,000	3,585,709	0.4
Contracted services	80,030,379	79,052,687	83,952,025	9.0
Other expenditure	45,916,785	47,450,149	50,294,550	5.2
<b>Total Expenditure</b>	<b>892,524,078</b>	<b>929,346,090</b>	<b>978,875,889</b>	<b>100.0</b>

The largest expenditure items are bulk purchases at 37.4%, employee related costs at 23.6% and debt impairment at 16.3%. The three items make up 77.3% of the expenditure of the municipality.

### **Capital Budget**

The Capital Budget amounts to R79,979,000 and is funded as follows:

Description	Draft Budget 2019/20 R	Weighting
National Government funded	64,779,000	81%
<i>Lesedi L.M. (own funded)</i>	15,200,000	19%
<b>TOTAL</b>	<b>79,979,000</b>	<b>100%</b>

LIST OF CAPITAL PROJECTS FOR 2019/20						
GRANT FUNDED PROJECTS						
Vote number	Project Description	Department	Source of Funding	Budget 2019/20	Budget 2020/21	Budget 2021/22
37156433020F3C63Z2V	STREET LIGHTS (EDDSM)	Electrical	EEDMS	6 000 000	6 000 000	7 000 000
37156432420IPC61Z2V	ELECTRIFICATION- OBED NKOSI - LV	Electrical	INEP	900 000	-	-
37156433020IPC65Z2V	ELECTRIFICATION- OBED NKOSI - MV	Electrical	INEP	727 600	-	-
New Vote Number	ELECTRIFICATION- IMPUMELELO - LV	Electrical	INEP	6 372 400	6 274 363	6 619 453
New Vote Number	ELECTRIFICATION- IMPUMELELO - MV	Electrical	INEP	5 000 000	6 525 637	6 884 547
31106470020LMC02Z2V	COMPUTER HARDWARE	Libraries	Libraries	480 000	-	-
31106475020LCD08Z2V	NEW BOOKS	Libraries	Libraries	1 000 000	-	-
31106473520LCD03Z2V	MAINTENANCE DEVON	Libraries	Libraries	1 500 000	-	-
31106473520LCD03Z2V	FENCING OF RATANDA PROPER	Libraries	Libraries	1 000 000	-	-
New Vote Number	CAR PORT	Libraries	Libraries	120 000	-	-
31106460020LOC95Z2V	FURNITURE	Libraries	Libraries	275 000	-	-
37306472420FMC57Z2V	CONSTR OF ROADS & STORMWATER OBED NKOSI	Roads	MIG	11 500 000	27 695 000	29 554 000
New Vote Number	INSTALLATION OF HIGHMASTS AT LESEDI	Electrical	MIG	1 904 000	-	-
New Vote Number	UPGRADING OF DEVON WASTE WATER TREATMENT	Sewer	MIG	1 200 000	-	-
New Vote Number	CONSTR OF ROADS & STORMWATER JAMESON PARK	Roads	MIG	7 800 000	-	-
New Vote Number	CONSTR OF ROADS & STORMWATER RATANDA EXT7 ROADS	Roads	MIG	4 000 000	-	-
New Vote Number	REPLACEMENT OF ASBESTOS PIPES LESEDI P4	Water	WSIG	8 000 000	10 000 000	10 600 000
New Vote Number	UPGRADING OF SEWER PIPELINE IN THOKOLOHONG AGRI VILLAGE	Sewer	WSIG	7 000 000	-	-
New Vote Number	UPGRADING OF SEWER CHANNELS IN RATANDA PROPER	Sewer	WSIG	-	5 000 000	-
New Vote Number	UPGRADING OF OUTFALL SERWER PIPELIN AT RATANDA EXT 2	Sewer	WSIG	-	-	5 000 000
Total Grant funded Proje				64 779 000	61 495 000	65 658 000

INTERNAL FUNDED PROJECTS					
Project Description	Department	Source of Funding	Budget 2019/20	Budget 2020/21	Budget 2021/22
EXTENDING,FENCING AND PECKING OF NEW GRAVES KAMP CEMETERY	Cemeteries	INTERNAL FUNDING	-	2 000 000.00	2 000 000.00
FURNITURE	Corporate	INTERNAL FUNDING	350 000.00	-	-
OFFICE FURNITURE	DP	INTERNAL FUNDING	-	-	-
UPGRADING & REFURBISHMENT OF NETWORK	Electrical	INTERNAL FUNDING	500 000.00	1 500 000.00	2 000 000.00
FURNITURE	Electrical	INTERNAL FUNDING	-	-	-
UPGRADING & REFURBISHMENT OF SECONDARY SUBSTATION	Electrical	INTERNAL FUNDING	500 000.00	1 500 000.00	4 500 000.00
TOOLS & EQUIPMENT	Electrical	INTERNAL FUNDING	150 000.00	-	-
COMPUTER HARDWARE	ICT	INTERNAL FUNDING	1 000 000.00	500 000.00	500 000.00
VACUUM CLEANERS x12	Facilities	INTERNAL FUNDING	-	50 000.00	-
TROLLEY BUCKETS AND WRINGERS x14	Facilities	INTERNAL FUNDING	-	30 000.00	-
TILE SCRUBBING MACHINES x3	Facilities	INTERNAL FUNDING	-	18 000.00	-
STEEL FRAME CHAIRS WITH CUSHION x1200	Facilities	INTERNAL FUNDING	-	-	264 000.00
STEEL FOLDING TABLES x120	Facilities	INTERNAL FUNDING	-	-	60 000.00
CHAIRS MOVING TROLLEY x4	Facilities	INTERNAL FUNDING	-	-	10 000.00
UPGRADE OF MUNICIPAL BUILDING	Facilities	INTERNAL FUNDING	500 000.00	500 000.00	500 000.00
FIRE ENGINE	Fire	INTERNAL FUNDING	4 500 000.00	-	-
FURNITURE	Mayor	INTERNAL FUNDING	-	-	-
MECHANICAL RAKE	Parks	INTERNAL FUNDING	-	120 000.00	120 000.00
SLASHERS	Parks	INTERNAL FUNDING	350 000.00	280 000.00	300 000.00
TRACTOR (GRASS CUTTING) X 2	Parks	INTERNAL FUNDING	-	-	500 000.00
INTERNAL ROADS EKHUTULENI CEMETERY	Parks	INTERNAL FUNDING	1 500 000.00	1 000 000.00	-
REFUSE COLLECTION TRUCK	Refuse	INTERNAL FUNDING	-	3 000 000.00	-
TLB	Refuse	INTERNAL FUNDING	-	-	1 200 000.00
LDV	Refuse	INTERNAL FUNDING	-	300 000.00	-
TIPPER TRUCKS	Refuse	INTERNAL FUNDING	-	-	500 000.00
GRADER	Roads	INTERNAL FUNDING	-	-	2 500 000.00
SKY JACKS	Roads	INTERNAL FUNDING	-	-	-
TAR CUTTER AND COMPACTOR	Roads	INTERNAL FUNDING	-	170 000.00	190 000.00
RESEALING OF ROADS	Roads	INTERNAL FUNDING	5 000 000.00	6 000 000.00	7 000 000.00
TRAILERS	Sewer	INTERNAL FUNDING	350 000.00	-	-
GRASSING OF THE RATANDA STAUIM	Sports and R	INTERNAL FUNDING	-	-	150 000.00
TRUCK	Water	INTERNAL FUNDING	-	-	370 000.00
UPGRADING TELEMETRY SYSTEM	Water	INTERNAL FUNDING	500 000.00	-	-
BACKUP SUPPLY EMMASDALE (PUMPSTATION)	Water	INTERNAL FUNDING	-	1 500 000.00	-
		Total Internal funded Pro	15 200 000.00	18 468 000.00	22 664 000.00
		TOTAL CAPITAL	79 979 000.00	79 963 000.00	88 322 000.00

**5. LEGISLATIVE PROVISION**

Section 16 (1) and (2) of the MFMA.

**6. LC.CM-.../03/2018 RECOMMENDATION**

**6.1 THAT** Council notes the draft annual budget with operational revenue of R935,866,205 operational expenditure of R892,524,078 and Capital Expenditure of R79,979,000 for the 2019/20 financial year as contained in the following tables: